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RUEHLB/AMEMBASSY BEIRUT PRIORITY 4892
RUEHEG/AMEMBASSY CAIRO PRIORITY 3594
RUEHTV/AMEMBASSY TEL AVIV PRIORITY 2127
RHEFDIA/DIA WASHDC PRIORITY
RUEAIIA/CIA WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
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STATE FOR NEA/ELA; NSC FOR SINGH/GAVITO

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SUBJECT: INFLATION ADDING TO SYRIA'S ECONOMIC PRESSURE

REF: A. 07 DAMASCUS 949

[1B](#). DAMASCUS 209

[1C](#). DAMASCUS 55

Classified By: Charge d'Affaires Michael Corbin for reasons 1.4(b,d)

SUMMARY

[11.](#) (C) Driven in large part by sustained higher prices for fuel and food, inflation is contributing to domestic economic pressure in Syria. While the IMF estimated Syrian inflation to be 14.4 percent in 2007, internal Post surveys place the figure above 18 percent, with inflation of consumable goods even higher. Two years of drought and increased external demand for Syrian produce is compounding the local impact of global food inflation. The SARG's attempts to control domestic food prices by restricting exports could exacerbate Syria's economic difficulties if farmers stop producing rather than accept prices below their production costs. Syria's public sector, which employs some 35 percent of the workforce, has not had a raise since 2004 and consumer purchasing power is low. As the SARG moves cautiously closer to removing diesel subsidies, which will immediately increase prices for all goods and services, the majority of Syrians are increasingly anxious about feeding their families and making ends meet. End summary.

A LOOK AT THE NUMBERS

[12.](#) (C) In January 2008, the SARG's official news outlet (SANA) reported that inflation had dropped to 4.4 percent in 2007 from 10.6 percent in 2006. The IMF's analysis, however, showed inflation in Syria actually increasing from 5.6 percent in 2006 to 14.4 percent in 2007. Since June 2006, Post has conducted a quarterly price survey on a basket of 100 goods at various stores in greater Damascus. Our data reflects a cumulative inflation rate of 23.2 percent since June 2006, and 18.2 percent since June 2007. Notably, the inflation rate of consumable goods alone would be even higher, as our overall average is skewed downward by the inclusion of durable goods. When consumer spending began to contract in 2007, the prices of many durable goods, such as

apparel, actually decreased as merchants attempt to sell remaining inventory.

WHAT'S DRIVING INFLATION

13. (SBU) As in many other parts of the world, inflation in Syria is being driven by the increasing cost of fuel and food. Sustained high oil prices have widened the gap between global market prices and SARG-subsidized prices for gasoline and diesel in Syria, resulting in rampant fuel smuggling to neighboring countries. As Syria became a net importer of refined petroleum products in 2007, the SARG struggled to insulate the Syrian public from international prices. A heated public debate over the possible elimination of subsidized diesel resulted in an "anticipatory" jump in food prices at local markets in late summer 2007, which was compounded further by seasonal price increases associated with Ramadan in September (ref A). Since November, the SARG has increased the price of gasoline twice, by a cumulative 33 percent (ref B). In fall 2007, higher fuel costs were also reflected in the utilities sector, as the SARG increased prices of water and electricity.

14. (SBU) In addition to fuel prices, other factors are also contributing to high food prices in Syria. Two years of drought in Syria's northeastern heartland have resulted in an approximately 15 percent lower wheat yield in 2007, which is estimated to drop by yet another 20 percent in 2008. At the same time, high oil prices (reflected in shipping costs) have increased demand for Syrian wheat by regional importers, such as Egypt, Jordan, Iraq, Lebanon and Yemen. Chicken and eggs, the primary sources of animal protein in Syria, have increased in price by over 100 percent since early 2007 due to a comparable increase in the price of feed (which accounts for 80 percent of poultry production costs). As Syria imports almost all of the corn and soybeans used to manufacture chicken feed, these prices have been passed to the Syrian consumer. (Note: In 2007, U.S. exports represented 77 percent of all corn and nearly 50 percent of all soybeans imported by Syria (ref C). End note.)

INFLATION'S IMPACT

15. (SBU) The most obvious impact of inflation is that consumer purchasing power has dropped considerably as wages have not kept pace. The Syrian public sector, which employs approximately 35 percent of all workers, has not received a raise since August 8, 2004. The last raise was a scaled increase of between five and fifteen percent of base salary, provided the increase was not less than 600 SP (USD 12) and not greater than 2000 SP (USD 40) per month. According to a recent op-ed in the government daily Al Thawra, minimum wage employees in the Syrian public sector today earn less than USD 200/month. Our estimates indicate that the majority of Syrians who comprise the lower class spend some 70-75 percent of their monthly income on food, while for middle class citizens food expenses account for about 20 percent of their monthly budget. According to local media reports, Damascus store owners observed a 30 percent decrease in domestic consumption in March 2008 compared with March 2007.

16. (C) In an effort to control domestic prices, the SARG has prohibited grain and animal-feed producers from exporting surplus produce to foreign markets where it would fetch a higher price. Several wheat farmers have subsequently started selling irrigated crops for grazing sheep just to recoup production costs, having calculated that they would lose money by actually harvesting the crops, transporting the produce to government purchasing centers, and bribing the necessary officials only to receive below-market prices. The SARG has since threatened to fine farmers 5000 SP (USD 100) per dunam for any crop sold for grazing. A similar phenomenon is occurring with Syria's cotton industry, which, including textile and apparel production, employs nearly 20

percent of the Syrian labor force. Since the SARG has not increased the price of cotton to keep pace with production costs, reports indicate that many cotton farmers have opted not to plant in 2008. If this situation persists, a record-low cotton yield could come at an already difficult time for the Syrian economy.

COMMENT

¶7. (C) While the wealthy Damascene elite continue to spend on luxury goods and restaurants, the majority of Syrians are already struggling to make ends meet. To soften the eventual additional blow of removing diesel subsidies, Bashar will likely give the public sector a raise, although locals expect it not to keep pace with inflation. Indeed, many are complaining that rumors of a wage hike are driving prices higher still. In the end, we doubt the SARG is worried that inflation will lead to uprisings against the regime. But, Bashar's cautious approach to enacting economic reforms -- especially lifting diesel subsidies -- suggests he is concerned by a negative public reaction at a time when Syria faces external threats from Israel and continued pressure from the U.S. and Arab states over Lebanon.

CORBIN